

VERIZON MASSACHUSETTS

STATE OF MASSACHUSETTS

REBUTTAL TESTIMONY

OF

PAULA L. BROWN

1 Q. Please state your name and business address.

2 A. My name is Paula L. Brown and my business address is 185 Franklin Street,
3 Boston, Massachusetts 02110.

4 Q. Have you previously testified in this proceeding?

5 A. Yes. I previously submitted testimony describing Verizon Massachusetts'
6 ("Verizon MA's") Alternative Regulation Plan ("the Plan").

7 Q. What is the purpose of your rebuttal testimony?

8 A. The purpose of my rebuttal testimony is to respond to certain issues raised by the
9 direct testimony of Dr. Gabel and Dr. Mayo.

10 Q. Turning first to Dr. Gabel's comments, do you agree that Verizon MA is
11 proposing a rate increase in its Plan?

12 A. In compliance with the Department's directive in the *Phase I Order*, Verizon MA
13 is proposing a revenue-neutral filing in which intrastate Switched Access charges
14 are reduced to the July, 2002 interstate rate levels and those reductions are offset
15 by an increase in the Residence Dial Tone Line charge. Since these rate changes
16 are revenue neutral, Dr. Gabel's characterization of the proposal is misleading.
17 Verizon MA will not make any additional revenue from these rate changes.
18 Verizon MA also has proposed that it have the ability to increase the Residence
19 Basic services charges by up to 5 percent each year, but Verizon MA has not
20 proposed any additional increase in this filing.

21 Q. Dr. Gabel has said that Verizon MA's proposed Plan will not promote
22 competition, ensure Residence customers have just and reasonable prices, and
23 maintain high service quality levels. Do you agree?

1 A. No. Regarding competition, under the proposed Plan, Verizon MA's competitors
2 continue to have access to resale and UNEs, and Verizon MA's retail rates are
3 and will continue to be subject to the Department's price floor rules. Verizon MA
4 has already shown that competition exists in every exchange for both Residence
5 and Business services. The proposed Plan does not change any of the existing
6 competitive rules. The Plan merely provides a pricing framework for retail
7 Residence services, which reflects a limited degree of pricing flexibility. There is
8 nothing in the Plan which deters competition.

9 Q. Would you comment on the proposed Plan's effect on the continuation of high
10 quality service?

11 A. Yes, as noted in the August 28, 2002 testimony of John Conroy, today's
12 competitive marketplace does not require the imposition of any Service Quality
13 Plan. However, Verizon MA has proposed that, if the Department finds a Service
14 Quality Plan is necessary, the D.P.U. 94-50 Service Quality Plan be retained with
15 a slight modification. Retention of that plan will ensure that if Verizon MA's
16 service falls below the long-standing Department threshold for appropriate service
17 quality, Verizon MA will pay a penalty.

18 Q. Does Verizon MA's Plan ensure just and reasonable rates?

19 A. Yes. The rates for Basic Residence services were found to be just and reasonable
20 when the Department first established an alternative form of regulation in D.P.U.
21 94-50. Those rates covered the marginal cost of each service and provided
22 various levels of contribution. The Dial Tone Line and Unlimited Local Usage
23 charges have not changed since 1994, and Local Usage charges were reduced in

1 Zone 2. There has been only a modest increase in Suburban and Circle Local
2 Usage charges, while the Metropolitan Service charge has declined. As Dr.
3 Taylor explains, there is no reason to believe that these charges are any less just
4 and reasonable now than when they were established.

5 Q. Dr. Gabel claims that the cost data upon which the Department relied is too old
6 and that TELRIC costs are inappropriate for consideration of retail pricing. Do
7 you agree?

8 A. First, Dr. Gabel is mistaken about the age of the Marginal Cost data. Marginal
9 Cost Study VI (MCS VI) was reviewed by the Department in 1994, in the last
10 transition filing, not in the 1980's. When the current rates are compared to the
11 MCS VI costs, all rates provide a contribution. Attachment A to my testimony
12 contains an analysis that shows the contribution by rate element. In addition,
13 Attachment B to my testimony compares MCS VI costs for the Residence Dial
14 Tone Line and Residence Usage with the 1997 TELRIC costs from the
15 *Consolidated Arbitrations*. The comparison shows that the cost studies produce
16 results that are directionally the same, and therefore, show that the relative levels
17 of contribution for retail rates when compared to either TELRIC, marginal costs,
18 or TELRIC minus the loading for joint and common costs, are also similar.

19 Q. Do you agree with Dr. Gabel that TELRIC produces costs that exceed marginal
20 costs or a Total Service Long Run Incremental Cost?

21 A. By definition, TELRIC costs are TSLRIC costs plus a loading for joint and
22 common overheads. In the TELRIC study that was produced in the *Consolidated*
23 *Arbitrations*, that loading factor was approximately 25 percent of TELRIC. As

1 Attachment B shows, if the joint and common costs are removed from the
2 TELRIC costs the resulting costs are directionally similar to the MCS VI studies.

3 Q. If the Department wanted to look at costs, could the Department rely on these
4 studies?

5 A. Yes. Both the MCS VI costs and the TELRIC costs provide directionally similar
6 information and guidance. The analyses that I have provided show that the
7 Residence Dial Tone Line provides relatively less contribution than usage and
8 vertical service offerings.

9 Q. Dr. Gabel also states that Verizon MA is claiming that Switched Access charges
10 subsidize the Residence Dial Tone Line rate. Is he correct?

11 A. No. Verizon MA has long recognized that as a result of the Department's pricing
12 policies and rate rebalancing actions since the late 1980's, the Residence Dial
13 Tone Line charge covers its incremental cost and is not subsidized in an economic
14 sense. The issue is how quickly prices should be moved toward economically
15 efficient levels and what level of contribution should Switched Access charges
16 provide. Verizon MA's view is that as long as its toll prices provide the same
17 level of contribution as Switched Access charges, the contribution in Switched
18 Access rates is competitively neutral. Verizon MA also recognizes that the
19 Residence Dial Tone Line is not as inelastic as it may have been before, but that it
20 remains the most inelastic rate element. Therefore, if the Department determines
21 that Switched Access charges should be lowered, the offset should be made by an
22 increase in the more inelastic service – the Residence Dial Tone Line rate.

1 Q. Dr. Gabel also suggests that competition is not lowering rates for vertical services
2 in Massachusetts. Is he correct?

3 A. No. He is correct in pointing out that pricing in a competitive market is very
4 complex. However, looking only at the rate for specific vertical services does not
5 tell the complete competitive story. Consideration must also be given to the
6 packages that include vertical features. In these packages, customers are
7 receiving a discount off the individual price of a given vertical service. One
8 example is Value Pack, which is a Verizon MA offering that provides Residence
9 customers with a choice of multiple vertical services. Depending upon the
10 number of vertical services desired, discounts can range up to approximately 65
11 percent off the list price. If the customer has multiple lines, there is an additional
12 5 percent discount on the vertical services included in the package.

13 Q. Dr. Gabel also suggests that all joint and common costs are going to be recovered
14 in the Residence Dial Tone Line. Do you agree?

15 A. No. As Attachment A to my testimony clearly shows, the Residence Dial Tone
16 Line contains less contribution in relation to other services and will still contain
17 lower levels of contribution than vertical and usage services even with the rate
18 changes provided for in the proposed Plan.

19 Q. Dr. Mayo suggests that the Department should reduce Switched Access charges to
20 TELRIC rate levels. Do you agree?

21 A. No. As Verizon MA has stated consistently, there is no reason for intrastate
22 Switched Access charges to be priced at TELRIC rate levels. Contrary to Dr.
23 Mayo's assertion, the Department has determined that Competitive Local

1 Exchange Carriers (“CLECs”) who terminate toll calls on Verizon MA’s network
2 will incur Switched Access charges. The charges for Switched Access service
3 have been reduced over time to reduce the historical levels of contribution, but
4 there is no reason to move those charges to TELRIC rates as long as the
5 competing toll prices contain the similar levels of contribution. The Department’s
6 price floor standards insure that the contribution included in Verizon MA’s toll
7 rates is greater than or equal to the contribution included in Verizon MA’s
8 Switched Access rates.

9 Q. Does this conclude your testimony?

10 A. Yes.